OPERATING BUDGET GUIDE

COMPARISON OF TRADITIONAL LINE ITEM BUDGET, PERFORMANCE BUDGET AND OUTCOME MANAGEMENT

Sunnyvale's Performance Budget concept places emphasis on planning and budgeting resources for the accomplishment of service objectives as compared to the traditional budget which bases decisions on line-item costs.

The traditional budget in local government provides detailed costs of resources by the use of line-item object accounts. These accounts just show the total cost of a particular class of labor or type of material (paper, asphalt, etc.) that has been approved as a budget item for an entire organizational unit, usually a Department. Some workload data may be provided in the budget but it is generally not related to the cost of performing the work. Neither efficiency nor effectiveness data are included in this type of budget.

Sunnyvale's Performance Budget is organized by programs, objectives, and tasks. During the budget development process, line item object accounts are used to budget within each task, and it is the task which generates the production units that accomplish the service objective. The Performance Budget thereby directly relates the labor, materials and other costs in the budget to the results that are to be produced. This link-up provides the means for measuring both the efficiency and effectiveness of resource utilization.

Resource allocation decisions in performance budgeting are based on the intended service levels. Program Managers have the flexibility to redistribute resources within their programs to maintain (not increase or decrease) current approved service levels.

As a refinement of the Performance Management concept, Sunnyvale has turned its focus to Outcome Management. The premise of this method is that the entire structure begins with high level, core outcomes, which define the ultimate results being sought, which in turn determine service delivery components. The focus is on the end product, not the process. Hence, budget development is dictated by Council-determined outcomes. In addition, program level measures are assigned weights, giving the City Council the opportunity to set relative priorities. The conversion process from Performance Budgeting to Outcome Management began in fiscal year 1995/1996.

The implementation is a multi-year process, with all programs expected to be converted to an outcome orientation by fiscal year 2003/2004.

The following table compares traditional line-item budgeting by entire departments to budgeting by Tasks, which accomplish the Objectives within Programs, and budgeting by Activities, which accomplish the Service Delivery Plan within a Program Outcome.

LINE ITEM BUDGETING/PERFORMANCE BUDGETING/OUTCOME MANAGEMENT COMPARISON

	TRADITIONAL LINE ITEM BUDGETING	PERFORMANCE BUDGETING	OUTCOME MANAGMENT
Budget Orientation	Money Control	Planning	Outcomes
Basic Budgeting Unit (Object Account)	Line Item	Task	Activity
Efficiency Measurement	None Units Per Work Hour	Unit Cost	Product Cost
Results Measurement (Effectiveness/Quality)		Objectives Performance Indicators Community Condition Indicators	Outcome Measures
Budget Period	One Year	Multi-Year	Multi-Year

RELATIONSHIP TO THE GENERAL PLAN

The overall purpose of the Performance Audit and Budget System (PABS) is to establish a process to assist program managers in scheduling work and resources in order to efficiently and effectively carry out the City's Goals and Policies contained in its General Plan. This purpose is summarized in the following concepts:

- Integration of long-term planning and evaluation with the budget process by relating the City's work efforts to stated service levels aimed at accomplishment of the General Plan Goals and Policies.
- Defining City business in service level terms by use of objectives to describe planned accomplishments, which contribute to achieving the General Plan's Goals and Policies.
- Recording the work hours, production units and financial aspects of achieved accomplishments.
- Measuring the efficiency and effectiveness achieved in accomplishing budgeted objectives.

The above concepts are interrelated. For example, under the Performance-Based budgeting method, the General Plan's Goals are directly related to specific Programs and Program Objectives. The Objectives are accomplished by Tasks in which all work hours and other costs are charged, and the Tasks provide statistics on the efficiency of production through Production Unit Cost and Units per Hour. Additionally, the effectiveness of objective accomplishment is also measured through Performance Indicators.

Under the Outcome Management method, a similar structure is maintained, but it is more integrated, with the focus on the ultimate result desired - the outcome. The central component, the Program Outcome Statement, provides answers to the "why", "how" and "how well". The program then consists of Service Delivery Plans based on the Outcome Statements. Service Delivery Plans are broken down into Activities which are measured in terms of Products. The effectiveness of the Outcome is determined by quantifiable Outcome Measures.

RESOURCE ALLOCATION PLAN STRUCTURE OVERVIEW

The City's Performance Audit and Budget System (PABS) is a fully integrated component of the Planning and Management System (PAMS). The PAMS consists of three components: the City's General Plan (Policy Setting), Service Delivery (Operating Programs) and Evaluation (Program and Personnel Audits).

The General Plan and Service Delivery components are organized in a hierarchical structure which makes it possible to functionally relate the City's Goals and Policies to the actual work outputs which are produced to achieve those Goals. The structure is designed to make
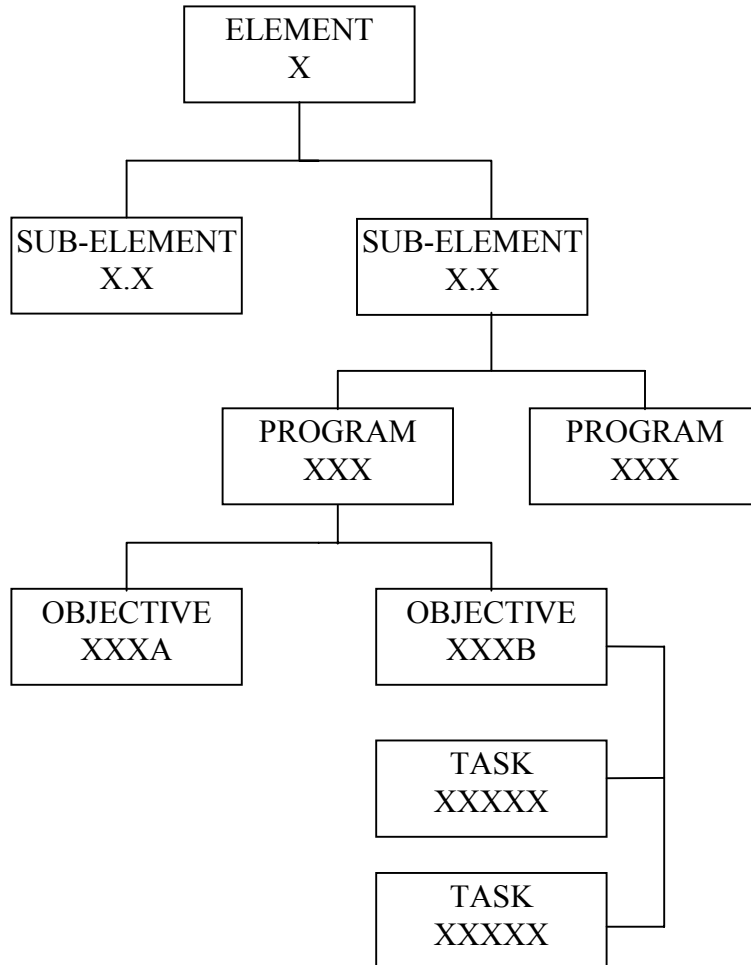
Service Objectives explicit within each Program so that information on the efficiency and effectiveness of its operations can be provided to Program Managers on a frequent basis.

The following three charts explain the program structure hierarchy and provide definitions of some key terms.

GENERAL PLAN AND PROGRAM HIERARCHY

	HIERARCHICAL COMPONENT	RELATED DESCRIPTION	EVALUATION MEASURES
GENERAL PLAN	**ELEMENT/SUB-ELEMENT**	General Plan Goals, Policies and Action Statement	Community Condition Indicator Annual Performance Report
BUDGET **(Resource Allocation Plan)**	**PROGRAM**	Program Mission Statement	Program-Wide Objective
	OBJECTIVE	Performance Standard (Objective Statements)	Performance Indicator
	TASK	Type of Production Unit	Production Unit Units/Hour Unit Cost

PERFORMANCE BUDGET STRUCTURE HIERARCHY AND DEFINITION OF TERMS

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          ┌──────────────┐
          │   ELEMENT    │
          │      X       │
          └──────────────┘
                 │
        ┌────────┴────────┐
┌───────────┐      ┌───────────┐
│SUB-ELEMENT│      │SUB-ELEMENT│
│    X.X    │      │    X.X    │
└───────────┘      └───────────┘
                         │
                  ┌──────┴──────┐
            ┌───────────┐  ┌───────────┐
            │  PROGRAM  │  │  PROGRAM  │
            │    XXX    │  │    XXX    │
            └───────────┘  └───────────┘
                  │
          ┌───────┴───────┐
    ┌───────────┐   ┌───────────┐
    │ OBJECTIVE │   │ OBJECTIVE │
    │   XXXA    │   │   XXXB    │
    └───────────┘   └───────────┘
                         │
                   ┌───────────┐
                   │   TASK    │
                   │   XXXXX   │
                   └───────────┘
                         │
                   ┌───────────┐
                   │   TASK    │
                   │   XXXXX   │
                   └───────────┘
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Community Condition Indicators identify community conditions which require some form of direct or indirect service.

Element/Sub-Element Goals, Policies and Action Statements are established at the sub-element level to reflect the state of affairs the City desires to exist.

Program Mission Statements describe the overall intended purpose of the programs.

Program-Wide Objectives describe in specific and measurable terms the results programs are expected to achieve.

Performance Indicators are quantifiable expressions of program service objectives that permit measurement of performance.

Production Units are measures of task output used to accomplish the task.

Unit/Hour are the number of units produced in an hour per task.

Unit Cost is the cost to produce a unit in a task.

OUTCOME MANAGEMENT STRUCTURE HIERARCHY AND DEFINITION OF TERMS

PROGRAM OUTCOME STATEMENT

- *Council's Service Priority Direction*
- *Core Measures*
  - *Quality-Effectiveness*
  - *Cost Efficiency*
  - *Budget/Cost Ratio*
  - *Customer Satisfaction*

SERVICE DELIVERY PLANS

- *Quality Effectiveness Measures*
- *Cost Efficiency*
- *Budget/Cost Ratio*
- *Allocated Costs*
- *Customer Satisfaction*

ACTIVITIES & SUB-ACTIVITIES

- *Quality Effectiveness Measures*
- *Cost Efficiency*
- *Budget Allocation*

PRODUCT

- *Demand Management*
- *Volume of Activities*

Program Outcome Statements describe the purpose and final result for which the program is undertaken (from customer's view) as well as broad service areas and critical measures.

Service Delivery Plans describe specific programming of targeted services to meet the program outcome(s).

Activities incorporate everything that goes into providing a specific service. This is the lowest official level cost center.

Sub-Activities (optional) are sub-sets of activities providing an optional cost accounting and management tool.

Products are the end results of activities that support outcome statements.

Allocated Costs are a method for allocating overhead time and other expenses.

Weights are assigned to program measures by Council to clarify relative priorities.

The General Plan comprises seven elements, which are further divided into sub-elements:

ELEMENT		SUB-ELEMENT	
1.	Land Use & Transportation		
2.	Community Development	2.2	Open Space & Conservation
		2.3	Housing & Community Revitalization
		2.4	Safety & Seismic Safety
		2.5	Community Design
3.	Environmental Management	3.1	Water Resources
		3.2	Solid Waste Management
		3.3	Sanitary Sewer System
		3.4	Surface Runoff
		3.5	Energy
		3.6	Noise
		3.7	Source Reduction & Recycling
4.	Public Safety	4.1	Law Enforcement
		4.2	Fire
		4.3	Support Services
5.	Socio-Economic	5.1	Socio-Economic
6.	Cultural	6.1	Recreation
		6.2	Library
		6.3	Heritage Preservation
		6.4	Arts
7.	Planning and Management	7.1	Fiscal Management
		7.2	Community Participation
		7.3	Legislative Management

The Operating Budget is organized by elements and presented at the program level - the highest operating level in the hierarchy. For each element, the following information is presented:

- Goals, Policies and Action Statements
- Community Condition Indicators
- Program Performance Budget (RAP)

A brief definition of the RAP report for programs still under the Performance Budgeting method, and for programs converted to the new Outcome Management method is furnished in the pages that follow.

PROGRAM PERFORMANCE BUDGET - PERFORMANCE BUDGETING

Purpose: This report (RAP) provides an overview of the amount of resources that have been allocated to each program. It includes:

(A) Program Outcome Statement
(B) Objective Statement
(C) Performance Measures
(D) Costs
(E) Units
(F) Work Hours
(G) Unit Costs

SEE SAMPLE REPORT ON FOLLOWING PAGES

PROGRAM PERFORMANCE BUDGET - OUTCOME MANAGEMENT

Purpose: This report (RAP) provides an overview of the amount of resources that have been allocated to each program. It includes:

(A)   Program Outcome Statement
(B)   Program Outcome Measures
(C)   Service Delivery Plan Statement
(D)   Costs
(E)   Products
(F)   Work Hours
(G)   Product Cost

SEE SAMPLE REPORT ON FOLLOWING PAGES